PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item# 6 (Rev. 1)

Agenda ID# 21649

ENERGY DIVISION **RESOLUTION E-5277**

July 13, 2023

R E S O L U T I O N

Resolution E-5277. San Diego Gas & Electric Request to Count the Utility-Owned Westside Canal Energy Storage Project Towards Midterm Reliability Procurement Requirements.

PROPOSED OUTCOME:

- Approves San Diego Gas & Electric's request to count the utility-owned Westside Canal Energy Storage Project towards its midterm reliability procurement requirements pursuant to Decision 21-06-035 and modify the project's cost recovery mechanism.

SAFETY CONSIDERATIONS:

- There are no safety considerations associated with this resolution.

ESTIMATED COST:

- There are no additional costs associated with this resolution.

By Advice Letter 4182-E, Filed on March 22, 2023

SUMMARY

This Resolution approves San Diego Gas & Electric's (SDG&E) request to count the utility-owned Westside Canal Energy Storage Project ("Westside Canal" or "the Project") towards its midterm reliability procurement requirements pursuant to Decision (D.) 21-06-035 and modify the project's cost recovery mechanism. The Project was originally procured to meet summer reliability procurement targets pursuant to D.21-12-015.

BACKGROUND

Since 2019, the Commission has issued several large procurement orders under its Integrated Resource Planning (IRP) authority. In D.19-11-016, the Commission directed load-serving entities (LSEs) under its jurisdiction to procure a total of at least 3,300 MW of system resource adequacy (RA) capacity, with at least 50 percent online by August 1, 2021; 75 percent online by August 1, 2022; and 100 percent online by August 1, 2023, for near-term reliability purposes. The Commission later adopted D.21-06-035 ("MTR Decision") requiring LSEs to procure an additional 11,500 MW of September net qualifying capacity (NQC), with at least 2,000 MW by August 1, 2023; an additional 6,000 MW by June 1, 2024; an additional 1,500 MW by June 1, 2025; and an additional 2,000 MW of long lead time resources by June 1, 2026, for midterm reliability ("MTR") purposes.

Pursuant to the MTR Decision, SDG&E's share of this procurement requirement was 63 MW online by August 1, 2023; 188 MW online by June 1, 2024; 47 MW online by June 1, 2025; and 63 MW of long lead time resources by 2026. In March 2022, SDG&E filed Tier 2 Advice Letter (AL) 3967-E with the Commission, requesting to adjust its MTR capacity requirements to reflect mutually agreed-upon reallocations with San Diego Community Power (SDCP), a community choice aggregator in SDG&E's service territory. AL 3967-E was accepted by the Commission's Energy Division in June 2022, setting SDG&E's current share of the procurement requirement as 82.7 MW online by August 1, 2023; 247.6 MW online by June 1, 2024; 62.3 MW online by June 1, 2025; and 82.7 MW of long lead time resources by 2026.

In December 2021, the Commission in D.21-12-015 ("Summer Reliability Decision") adopted several supply and demand-side requirements to ensure there is adequate electric power in the event of extreme weather during the time of greatest need in the summers of 2022 and 2023. Among other things, the Commission directed the investor-owned utilities (IOUs) to use their best efforts to meet a revised emergency reliability targeted procurement range of 2,000 MW to 3,000 MW for the summers of 2022 and 2023, resulting in an "effective" planning reserve margin of 20 to 22.5 percent. SDG&E's share of this summer reliability targeted procurement is 200 to 300 MW.[1]

The Summer Reliability Decision established specific requirements for the procurement of additional supply resources to ensure adequate electric power in the event of extreme

[1] D.21-12-015 OP 3.

weather conditions during the summers of 2022 and 2023. Specifically, the Summer Reliability Decision stated:[2]

- Resources must be available during both the peak and net peak demand periods.
- Commercial Online Dates (COD) by June 1, 2022, are preferred but resources with CODs by August 1, 2023, will be considered.
- New resources that have not yet reached full capacity deliverability status (FCDS) but are capable of providing energy/grid reliability benefits during the peak and net-peak periods will also be considered.
- Potential resources may include utility-owned storage (UOS), with Commission consideration of such projects through a Tier 2 AL.

The Westside Canal Project is a 131 MW / 524 MWh UOS project that loops into the Campo Verde-Imperial Irrigation District gen-tie line and transmission interconnect (230 kV) to SDG&E's Imperial Valley Substation. The Project is under a Build, Own, and Transfer (BOT) agreement with Consolidated Edison Development, Inc.

The Project was originally bid into SDG&E's Electric & Fuel Procurement (E&FP) 2021-2023 IRP Reliability Solicitation and shortlisted in May 2020; Westside Canal's shortlisted position was withdrawn from the solicitation due to its inability to acquire the necessary FCDS in time to meet the relevant online date of August 1, 2021. The project was subsequently resubmitted with revised pricing and online dates into SDG&E's E&FP 2022-2023 IRP Request for Offers (RFO). However, in order to maintain the project development schedule for Westside Canal necessary to achieve COD within the timeframe established in the Summer Reliability Decision, Commission approval was required at an earlier date than SDG&E's E&FP 2022-2023 RFO process allowed. Thus, SDG&E moved forward with a bilateral approach, as permitted in the Summer Reliability Decision, rather than seeking project approval through the E&FP 2022-2023 solicitation process.[3]

In December 2021, SDG&E filed Tier 2 AL 3913-E requesting approval of three contracts for UOS resources and related costs to meet its share of the summer reliability procurement target, including Westside Canal. In February 2022, the Commission approved the Westside Canal contract and its total estimated costs in Resolution E-5193.

[2] D.21-12-015 OP 64.
[3] SDG&E AL 3913-E at 6.

SDG&E filed AL 4182-E, the subject of this resolution, on March 22, 2023. SDG&E additionally filed a substitute letter for AL 4182-E on April 14, 2023, in order to correct an erroneous reference to a Commission decision. In AL 4182-E, SDG&E states that it has shortfalls of approximately 64 MW and 84 MW for its 2023 and 2024 MTR compliance obligations, respectively. To address this shortfall, SDG&E requests that the Commission find that:

- SDG&E is authorized to claim Westside Canal Energy Storage Project towards compliance for capacity requirements under D.21-06-035, and
- SDG&E is authorized to recover all costs associated with the Project in rates as described, subject to its prudent administration of the agreements.

The Summer Reliability Decision allows an IOU to use UOS resources procured for 2022 and/or 2023 summer reliability to meet its individual MTR requirements assuming the resource otherwise meets MTR requirements and the IOU charges only bundled customers for the post-2023 cost of the resources.[4] SDG&E states that the Project meets MTR eligibility requirements because it: 1) is new in-front-of-the-meter energy storage; 2) will obtain a September 2023 NQC; and 3) is a resource that has a contract term at a minimum of 10 years.

SDG&E states that from the Project's online date until August 1, 2023, Westside Canal's capacity would continue to count toward the Summer Reliability Decision's "effective PRM" targets and its costs would be recovered through the cost recovery mechanism approved in AL 3913-E, the Cost Allocation Mechanism (CAM). As of August 1, 2023, SDG&E would allocate the costs associated with 66 MW (64 MW NQC) of the Project to applicable customers, which include bundled service customers and departing load customers with 2021 vintage cost responsibility, i.e., via the Power Charge Indifference Adjustment (PCIA) mechanism, using the Portfolio Allocation Balancing Account (PABA) in accordance with AL 4018-E. Beginning on January 1, 2024, SDG&E would allocate the costs associated with the full 131 MW (123 MW NQC) to applicable customers.[5]

SDG&E's requested cost recovery modifications are summarized in the table below:

[4] D.21-12-015 at 108.
[5] SDG&E AL 4182-E at 4.

Time Period	Nameplate Capacity (MW)	Compliance NQC (MW)	Compliance Category	Cost Recovery Mechanism
Online – July 31, 2023	131	131	Summer 2023 Emergency Reliability	CAM
August 1, 2023 – December 31, 2023	65	65	Summer 2023 Emergency Reliability	CAM
	66	64	Midterm IRP Procurement 2023	PCIA, Vintage 2021
January 1, 2024 – End of Contract	131 (66 + incremental 65)	123 (64 + incremental 59)	Midterm IRP Procurement 2024	PCIA, Vintage 2021

NOTICE

Notice of AL 4182-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

SDG&E AL 4182-E was timely protested by SDCP on behalf of itself and its sister agency, Clean Energy Alliance (CEA), on April 11, 2023. SDCP argues that AL 4182-E should be denied without prejudice on the grounds that: 1) SDG&E cites no authority for PCIA treatment for Westside Canal, 2) SDG&E provides no meaningful justification for PCIA treatment of the Project, 3) SDG&E's request violates the procedural requirement in the MTR Decision that utility-owned resources must be approved by application, and 4) granting SDG&E's request would burden SDCP and CEA customers by increasing PCIA charges and eliminating any RA credits that they would have received through CAM.

SDG&E timely responded to SDCP's protest on April 18, 2023. In response to SDCP's claim that the AL fails to cite relevant authority for PCIA treatment, SDG&E states that AL 4182-E explicitly cites to Ordering Paragraph (OP) 14 of the MTR Decision, which states that, "Pacific Gas & Electric Company, Southern California Edison Company, and

San Diego Gas & Electric Company may file Tier 1 advice letters to claim compliance with the capacity requirements in this decision for any contract or resource that has been approved by the Commission for another purpose in another venue."

Further, SDG&E states that the Summer Reliability Decision makes clear that if an IOU uses a resource to comply with MTR Decision requirements, it may not continue to recover capacity costs through CAM. SDG&E states that this results in an "either/or" proposition, where the resource's capacity is counted toward summer reliability requirements and costs are recovered through CAM, or the resource's capacity is counted toward MTR Decision requirements and costs are recovered in a manner consistent with the MTR Decision, i.e., PCIA. SDG&E points to Resolution E-5259, in which the Commission approved a request by Southern California Edison Company (SCE) that is "substantially identical to the request made by SDG&E" in AL 4182-E.[6]

With regards to SDCP's claim that SDG&E's request must be submitted via application in order to count for MTR purposes, SDG&E states that it is unclear what relief SDCP is requesting. SDG&E states that if SDCP recommends denial of SDG&E's request to count the Project's capacity toward its MTR Decision requirements *and* to recover the related costs through the PCIA, this request is inconsistent with the Commission's direction because the MTR Decision permits the IOUs to file Tier 1 advice letters to count approved summer reliability resources towards MTR Decision requirements and directs that costs of capacity counted to meet MTR Decision requirements be recovered through the 2021 PCIA vintage.[7] SDG&E further states that if SDCP's recommendation is that the Commission order SDG&E to file an application focused solely on its cost recovery request, that it would be illogical to approve SDG&E's request to count the Project's capacity toward its MTR obligations but withhold direction regarding cost recovery.

Finally, in response to SDCP's argument regarding the impact on SDCP and CEA customers, SDG&E claims that counting the Project's capacity towards its MTR requirements could actually serve to reduce costs for those customers because if SDG&E did not apply the Project's capacity to meet its MTR requirements, it would be required to separately procure additional capacity to meet its requirements, and per the MTR Decision, this additional capacity would be placed in the 2021 PCIA vintage, resulting in SDCP/CEA customers paying those costs in addition to costs of the Project recovered through CAM. SDG&E also states that SDCP's request that the Commission

[6] SDG&E Reply to SDCP Protest at 3.
[7] SDG&E Reply to SDCP Protest at 2-3.

"consider the adverse effect of reducing available CAM resources and associated RA credit in a scarce market" is a request that would require relitigating the Commission's determinations (and is thus prohibited by General Order 96-B) in D.21-12-015, D.21-06-035, and Resolution E-5259 that load-serving entities (LSEs) may count summer reliability procurement towards MTR procurement obligations and recover the costs through the 2021 PCIA vintage.[8]

DISCUSSION

As a procedural matter, it should be noted that although SDG&E filed AL 4182-E with the Commission as a Tier 1 AL, the Commission raises the tier level on its own initiative to Tier 3. This is consistent with General Order 96-B, Energy Industry Rule 5, where the relief requested by SDG&E (a change in cost recovery methodology from CAM to PCIA) is not eligible for either a Tier 1 or Tier 2 AL.

The Commission has reviewed AL 4182-E, SDCP's protest and SDG&E's reply. With regards to SDCP's contention that there is no authority for PCIA treatment for Westside Canal, we disagree. The Summer Reliability Decision states that it is permissible for IOU to use UOS resources procured for 2022 and/or summer reliability to meet its individual IRP MTR requirements assuming the IOU meets otherwise applicable IRP MTR resource requirements and the IOU charges only bundled customers for the post-2023 costs of the resources.[9] Further, the MTR Decision allows LSEs to count toward their MTR requirements procurement that they have conducted to support the Commission's orders for summer reliability purposes in Rulemaking (R.) 20-11-003, under which the Summer Reliability Decision was issued.[10] Finally, as noted by SDG&E in its reply, the Commission in Resolution E-5259 approved a similar request by SCE to count its utility-owned Etiwanda Separator storage project toward its MTR obligations and modify the project's cost recovery mechanism from CAM to PCIA.

SDCP also states that "[i]n order to count for MTR purposes, utility-owned projects must be submitted via application rather than advice letter."[11] We note that OP 13 of the MTR Decision, which SDCP refers to, is in the context of cost recovery requests, not for counting capacity towards MTR requirements. Additionally, the Summer Reliability Decision states that "[t]he requirement established in [the MTR Decision] obligating the

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[8] SDG&E Reply to SDCP Protest at 5.
[9] D.21-12-015 at 108.
[10] D.21-06-035 at 80.
[11] SDCP Protest at 1.

IOUs to submit an application for utility-owned resources procured to meet IRP MTR resource requirements does not apply to UOS resources that are brought online in response to this order."[12] In accordance with the Summer Reliability Decision, SDG&E requested cost recovery for Westside Canal in Tier 2 AL 3913-E, which was approved in Resolution E-5193.

Finally, with regards to burdening SDCP/CEA customers, SDCP states that granting SDG&E's request to change cost recovery authorization would do so by 1) increasing PCIA charges and 2) removing the Project from the CAM list and eliminating RA credits that SDCP/CEA customers would otherwise have paid for and obtained. Although the Commission recognizes that this change in CAM allocations may affect RA procurement efforts, the Summer Reliability Decision clearly states that it is permissible for IOUs to use summer reliability UOS resources to meet their IRP MTR requirements and that in order to do so, they must charge only bundled customers for the post-2023 cost of the resources. This is consistent with the MTR Decision[13] and there is no other cost recovery option other than the PCIA for charging only bundled customers for a resource in the context of MTR.

SDCP also takes issue with the fact that Westside Canal would be vintaged 2021 despite an originally expected COD[14] at the end of the 2022. The Project's COD is not relevant. Regardless of when an MTR resource comes online, the MTR Decision's procurement requirements were established in 2021, hence the direction in the MTR Decision that any resources applying to the order and subject to allocation using the PCIA be vintaged 2021.[15]

SDG&E's request in AL 4182-E complies with the directives of the Summer Reliability and MTR Decisions and will help SDG&E meet its 2023 and 2024 MTR obligations. Accordingly, we accept AL 4182-E and SDCP's protest is denied.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this Resolution must be served on all parties and subject to at least 30 days public review. Any comments are due within 20 days of the date of its mailing and publication on the Commission's website and in

[12] D.21-12-015 at 108.
[13] D.21-06-035 OP 12 and at 54.
[14] SDG&E AL 3913-E at 8.
[15] D.21-06-035 OP 12.

accordance with any instructions accompanying the notice. Section 311(g)(2) provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 20-day comment period for the draft of this Resolution was neither waived nor reduced. Accordingly, ~~this~~the Draft Resolution was mailed to parties for comments~~,~~ on June 8, 2023. SDCP and ~~will~~ CEA timely filed joint comments on Draft Resolution E-5277 on June 28, 2023.

SDCP/CEA state that the Draft Resolution commits legal error by authorizing cost recovery treatment for Westside Canal that is "explicitly prohibited" by the Commission in the Summer Reliability Decision. SDCP/CEA argue that because both bundled and unbundled customers pay PCIA charges, SDG&E's request runs counter to the Commission's determination that an IOU may use UOS resources procured for 2022 and/or 2023 summer reliability to meet its MTR requirements assuming the IOU charges only bundled customers for the post-2023 cost of the resources.

SDCP/CEA further state that the Draft Resolution misconstrues the MTR Decision, which "permits utilities to count projects approved by the Commission for compliance purposes" in OP 14 but does not "permit arbitrary changes in cost recovery." SDCP/CEA also claim that the MTR Decision does not require a choice between CAM and PCIA and that "there are numerous options available to the Commission to exclusively charge bundled customers and add the cost of the resource to bundled customer bills like other non-PCIA eligible generation and storage costs."[16]

We disagree with SDCP/CEA. While technically true that both current bundled and unbundled customers pay PCIA charges, SDCP/CEA ignore the intent of the PCIA, which is to prevent cost shifting to the detriment of bundled customers that remain when bundled customers *existing at the time of procurement requirements* later depart (i.e., become unbundled customers). The MTR Decision determined that the appropriate way to handle future load migration for existing IOU customers at the time of the decision was by applying the PCIA with a vintage of 2021 to MTR procurement costs.[17]

Although the Summer Reliability Decision does not explicitly mention the PCIA, there are not, as SDCP/CEA assert, "numerous options … to exclusively charge bundled

[16] SDCP Comments on Draft Resolution E-5277 at 3.
[17] D.21-06-035 at 53-54.

customers" in the context of MTR. In light of the determinations regarding PCIA in the MTR Decision, one cannot reasonably interpret the language's intent in the Summer Reliability Decision to be ~~placed on the CPUC's agenda no earlier than 30 days~~that a summer reliability resource eventually applied to MTR obligations be recovered in a manner different from ~~today~~the one directed in the MTR Decision. Further, the options that SDCP/CEA assert exist otherwise were not laid out or endorsed in either the MTR Decision or the Summer Reliability Decision. We agree with SDCP/CEA that OP 14 of the MTR Decision does not "permit arbitrary changes in cost recovery" and note that authorizing SDG&E to change the cost recovery of Westside Canal from CAM to PCIA is not arbitrary, given the context. Ordering a change in cost recovery methodology aside from the PCIA, as SDCP/CEA suggest is possible, *would* be an arbitrary change and could result in cost shifting to the detriment of SDG&E's bundled customers.

Finally, SDCP/CEA state that Resolution E-5259 is not relevant to the dispute herein and should not be taken in consideration. SDCP/CEA further claim that in the disposition of an advice letter from a single utility, "Resolution E-5259 is not binding or necessarily instructive here."

We disagree with the assertion that Resolution E-5259 is not relevant. The request in SCE AL 4928-E, as approved by Resolution E-5259, is substantially similar to SDG&E's request in AL 4182-E, the only differences being the specific project involved and the utility requesting the particular treatment for it. Aside from the aforementioned, we will not reject SDG&E's request based on SDCP's protests that granting the request would increase SDCP's and CEA's PCIA charges and eliminate RA credits that they would have received through CAM. While we recognize that this may not be SDCP/CEA's ideal outcome, that is not a reason to deny SDG&E's request, which is otherwise allowed by the MTR Decision and the Summer Reliability Decision.

SDG&E's proposed change in cost recovery from CAM to PCIA for purposes of applying Westside Canal to its MTR requirements is consistent with the MTR Decision and the Summer Reliability Decision, and we continue to deny SDCP's protest.

FINDINGS

1. San Diego Gas & Electric's (SDG&E) midterm reliability procurement requirement, with the Commission's Energy Division's acceptance of Advice Letter 3967-E, is 82.7 MW online by August 1, 2023; 247.6 MW online by June 1, 2024; 62.3 MW online by June 1, 2025; and 82.7 MW of long lead time resources by 2026.

2. The Commission in Resolution E-5193 approved the Westside Canal Energy Storage Project and two other SDG&E utility-owned storage (UOS) projects and the total estimated costs of such projects to meet summer reliability needs.
3. Decision (D.) 21-12-015 permits an investor-owned utility (IOU) to use UOS resources procured for 2022 and/or 2023 summer reliability to meet its individual midterm reliability requirements for its bundled customers if the resource meets otherwise applicable midterm reliability resource requirements and the IOU charges only bundled customers for the post-2023 cost of the resources.
4. SDG&E's proposed changes in cost recovery methodology in Advice Letter 4182-E comply with the Commission's prior direction in D.21-06-035, D.21-12-015, and Resolution E-5259 for purposes of applying the Westside Canal Energy Storage Project toward its midterm reliability requirements.
5. As of August 1, 2023, the costs associated with 66 MW (64 MW NQC) of the Westside Canal Energy Storage Project approved in Resolution E-5193 will be recovered from applicable customers, which includes bundled service customers and departing load customers with 2021 vintage cost responsibility, through SDG&E's Portfolio Allocation Balancing Account. Beginning January 1, 2024, the costs associated with the remaining 65 MW (59 MW NQC) of the Westside Canal Energy Storage Project will be recovered in the same manner.

THEREFORE IT IS ORDERED THAT:

1. The request of San Diego Gas & Electric to count the utility-owned Westside Canal Energy Storage Project towards its midterm reliability procurement requirements and modify the project's cost recovery mechanism as requested in Advice Letter 4182-E is approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on July 13, 2023; the following Commissioners voting favorably thereon:

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Rachel Peterson
Executive Director